

OTHER ACTIONS

IMPEDIMENTS TO MORTGAGE LENDING

Mortgage Lending Study

In 1995, the Community Development Department (CDD) commissioned a mortgage lending study to investigate whether or not lenders in Cambridge provided disproportionately fewer loans to minority neighborhoods and if so, to what extent does this pattern exist. The study was called, "Mortgage Lending Patterns in Cambridge, 1990-94". Home Mortgage Disclosure Act (HMDA) data and census data were used for the analysis. The result of the study demonstrated that "two areas of Cambridge with" a combination of "the highest percentages of Black and Hispanic residents and lowest income levels received mortgage loans at rates substantially below the citywide average". These neighborhoods were neighborhood 3, more formally known as the Wellington-Harrington Area, and neighborhood 4 locally referred to as Area 4. The study indicate race as a factor in the disparity in lending patterns.

Census Data & Homeownership Affordability Gap

CDD's experience in the local community has also found that the cost of housing is a major obstacle often resulting in residents in lower income areas and a large minority population such as neighborhoods 3 and 4 receiving fewer home-loans than other areas in Cambridge. CDD conducts an annual Housing Affordability Comparison Analysis which, among other details, shows the income gap that exist between the minimum required income to purchase a home and the Area Median Incomes (AMI) as established by HUD given the current median price. This is a tool used to develop policies and program that assist households seeking to become homeowners.

The report shows that the median price for a single-family home in Cambridge in 2003 is \$642,000 and that the median income for a family of four at 100% of AMI is \$80,800. Consequently, a family of four would need an income of \$176,183 (218% of AMI) to be able to afford the mortgage on the average single family home in Cambridge. To put a mortgage in reach the City needs to subsidize the cost of development to reduce the selling price of the unit making it affordable to a low and moderate-income family. In addition CDD works with local banks including Cambridge Savings Bank and East Cambridge Bank to provide financial assistance in the form of low-interest loans to prospective homeowners. According to 2000 census data, 62.5% of families in MIT (Area 2), 67.1% of families in Neighborhood 4 (Area 4), 81.1% of families in the Cambridgeport (Area 5), and 81.6% of families in the Wellington-Harrington (Area 3) are at or below the City's median family income limits.

Exclusive of racial issues in the housing market, the high cost of housing in Cambridge relative to the incomes of low and moderate-income families makes qualifying for and affording a large enough home mortgage loan difficult. Regardless of race or ethnicity, low

and moderate-income families are mostly able to afford housing in Cambridge that is subsidized, usually by federal, state, and city funds.

Cambridge Policies and Programs for Low & Moderate Income Housing Needs

One of the City's primary objective is to strive to maintain its socio-economic diversity through the creation and preservation of affordable housing, putting mortgages in reach for lower income residents in the City. It subsidizes the development of units to decrease the selling price to families, subsequently, decreasing the mortgage size needed for purchasing a home. As the price of housing in Cambridge continues to rise steadily, low and moderate-income families in Cambridge will find it increasingly difficult to acquire conventional mortgages to purchase a home in the City. The mortgage study showed disparities in lending practices toward minorities many of whom lived in some of Cambridge's lower income neighborhoods. Sensitive to these housing issues identified in many cities, Cambridge has committed its resources to create programs for homeownership as well as to address other fair housing issues. It has used the mortgage lending study as a basis for constructive dialogue among city officials, lenders, community-based organizations, and other interested parties to find solutions to address the housing issues faced by low and moderate-income families. Below is some of our progress in this endeavor.

- *CityHOME Initiative*

In 1995 the Cambridge Affordable Trust headed by the City Manager, began the CityHOME Initiative, allocating \$2 million to the Affordable Housing Trust to increase affordable rental and homeownership opportunities for low and moderate-income Cambridge residents. This was done in response to major changes occurring in the Cambridge housing market including the termination of rent control, changes in federal housing program policy and escalating land and development costs.

- *Homebuyer Classes and Counseling*

The City offers free monthly homebuyer classes. Potential buyers attend four two-hour sessions covering issues such as credit, finding a home, qualifying for a mortgage and the purchase process. The class materials are offered in Spanish, and Creole. In addition, the City offers special classes on "buying a multi-family home". Class graduates eligible for MHFA financing and individual counseling to help them tailor a plan for achieving homeownership.

- *Harvard University 20/20/2000 Initiative*

In the fall of 1999, Harvard University announced the 20/20/2000 program. Through this initiative, Harvard provided \$10 million to the City for affordable housing development. Of these funds, \$6 million have been disbursed to the Affordable Housing Trust and \$4 million will be channeled through two non-profit groups to fund affordable housing projects in Cambridge. Currently, the Trust is using the funds

to provide low-interest loans for construction and permanent financing for the development of affordable housing units and financial assistance to first time homebuyers.

- *Incentive Zoning Ordinance*

The Incentive Zoning Ordinance requires that non-residential developers who require a Special Permit, which authorizes an increase in the permissible density or intensity of a particular use, mitigate the impact of their development through a contribution to the Affordable Housing Trust of \$3.28 per square foot. The City is currently seeking City Counsel's approval to increase the rate to \$7.83 per square foot after completing a recent study that re-evaluated the Incentive Zoning program. In FY 2003, Cambridge received over \$1 million in linkage payments. The Community Development Department anticipates that the City will receive housing contribution payments exceeding \$2,500,000 over the next 5-7 years, to be contributed to the development of affordable housing.

- *Inclusionary Zoning Ordinance*

In March 1998, the Cambridge City Council passed an Inclusionary Zoning Ordinance that requires the developer of any new or converted residential development with ten or more units to provide 15% of the total number of units to the City as affordable units. The Community Development Department monitors compliance with this ordinance. Housing staff works with private developers to design and implement the marketing, and sale or leasing of units to low-income Cambridge residents. Through this program, the City has secured 129 affordable rental and homeownership units. Production in the Inclusionary Zoning program is subject to private developer activity throughout the City. In FY2004, 18 homeownership units for 1 to 6 person households will be marketed through this program.

- *Community Preservation Act ~ State & Locally Raised Funds*

The Community Preservation Act (CPA) is a new tool for communities to preserve open space, historic sites, and affordable housing. Signed into legislation by Governor Cellucci on September 14, 2000, the CPA is a local option that enables communities to establish a municipal Community Preservation Fund by local referendum. Monies collected for this fund are raised from a surcharge of up to 3% on local property taxes. Cambridge adopted the Act at the 3% surcharge level in fall 2001 and has since been awarded matching funds through the states competitive process. The City's Affordable Housing Trust will increase its annual budget to approximately \$7.2 million through FY2004 CPA funds. This will enable the City to maintain its production and ability to raise funds from other sources including federal, additional state, local, and private sources. The City's Affordable Housing Trust will utilize its CPA funds to create and preserve affordable housing.

- *Purchaser Assist*

In FY2001, the City of Cambridge applied for and received a grant in the amount of \$100,000. Working with the state's Department of Housing and Community Development, CDD will provide downpayment and closing cost assistance for eligible low and moderate-income individuals. These funds will be used to assist at least 9 first-time homebuyers in FY2003 and FY2004.

- *Soft Second Loan Program*

The Soft Second Loan Program is a mortgage product that reduces a borrower's monthly mortgage costs. Cambridge will request a commitment from the Department of Housing and Community Development (DHCD) to fund interest rate subsidy and loan loss reserve components of this program. These funds will be used in conjunction with reduced rate first mortgage funds provided by area lenders for low-income buyers. As the Polaroid development project approaches completion the City anticipates that 9 of the 18 low to moderate income families who will purchase a unit in this development will receive Soft Second loans totaling approximately \$1,215,000.

Mortgage Lending Initiatives for FY2004

- Complete a New Mortgage Lending Study
- CDD plans to arrange a series of meetings with the Cambridge Consortium of Banks to review the current lending practices in low-income and minority census tracts in Cambridge, and discuss ways to provide opportunities for the lower served areas in Cambridge.

REMOVE BARRIERS

Through its commitment to provide affordable housing, in FY2004, the City of Cambridge will continue its efforts to remove barriers to affordable housing and encourage support for public policies designed to house its extremely low, low and moderate income residents.

High Cost of Land and Real Estate

The City, through its Affordable Housing Trust, hopes to provide close to \$7.2 million in financing to non-profits to acquire properties to provide affordable rental and homeownership units whenever possible. Given Cambridge's volatile real estate market, when buildings are purchased by the private sector and become market rate units, they then become unaffordable to the economic group with the highest demand for housing in Cambridge. With the City's help, nonprofits will be able to purchase buildings and preserved each unit's affordability through a long-term deed restriction. The City will also continue its efforts to overcome this barrier by considering the use of City-owned land, whenever possible, for development as affordable housing.

The City is continuing to respond to the strong real estate market and escalating property prices by seeking to expand its first-time homebuyer programs to include households with incomes at 80-120% of area median income (AMI). This expansion of our homebuyer program is funded with funds from the Harvard 20/20/2000 Initiative and will be used to secure funds for low cost mortgages such as the Soft Second Loan Program.

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Zoning

In 2001, the Citywide Growth Management Advisory Committee was successful in re-zoning formerly non-residential districts to encourage or favor the construction of housing over competing commercial uses. Through the mechanism of Floor Area Ratio limits, all commercial districts now allow more building for residential uses than for commercial and industrial uses. In many of those commercial districts special permit procedures for residential development have been eliminated and housing may now be constructed as-of-right. Finally, in the four industrial districts that had previously prohibited housing construction, residential uses are now allowed to meet the growing demand.

The Cambridge Community Development Department (CDD) has worked for many years to support zoning policies that would promote incentives to encourage developers to provide affordable housing. In March 1998, the Cambridge City Council passed an Inclusionary Zoning ordinance that requires any new or converted residential development with ten or more units to provide 15% of the total number of units as affordable units. In return, the developer receives up to a 30% increase in density. CDD monitors compliance with this ordinance. Staff works with the private developers to design and implement the marketing and sale or leasing of units to low-income Cambridge residents. To date, approximately, 129 units have been secured through the Inclusionary Zoning Program and the City anticipates securing additional 80 units in FY2004.

Cambridge also has an Incentive Zoning Ordinance for commercial development over 30,000 square feet requiring special permits. The Incentive Zoning Ordinance requires that non-residential developers who require a Special Permit, which authorizes an increase in the permissible density or intensity of a particular use, mitigate the impact of their development through a contribution to the Affordable Housing Trust of \$3.28 per square foot. The City is currently seeking City Counsel's approval to increase the rate to \$7.83 per square foot after completing a recent study that re-evaluated the Incentive Zoning program. In FY 2003, Cambridge received \$800,000 in linkage payments. The Community Development Department anticipates that the City will receive housing contribution payments exceeding \$2,500,000 over the next 5-7 years, to be contributed to the development of affordable housing. This ordinance provides for payments to the Affordable Housing Trust to be used to create and preserve affordable housing. In addition, the Citywide Growth Management Advisory Committee continues to work on comprehensive zoning changes, which will encourage residential development in formerly non-residential districts.

Termination of Rent Control

Since 1995, Cambridge has made significant contributions to increasing affordable housing through its CITYHOME program which to date has received over \$33.95 million in City funds. An additional \$7.2 million will be requested for FY2004. CITYHOME is comprised of several components, including: (1) non-profit sponsored development of rental and homeownership units (new construction and rehabilitation); (2) a program offering financial assistance to low and moderate-income condo buyers; (3) low-interest loan programs for owners of multi-family properties. In return for financial assistance owners set-a-side units as affordable. It is important to note that Cambridge is one of the few localities nationwide that spends significant local funds on affordable housing.

Availability of Funding

Cambridge will work to reduce the resource gap by aggressively seeking out additional federal, state, and private resources to support its affordable housing priorities. In the coming year, the City of Cambridge will continue to reassess all of its housing activities to